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No. 10-486

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

JACK C. BENUN, JAZZ PRODUCTS LLC,
POLYTECH ENTERPRISE LTD, AND
POLYTECH (SHENZHEN) CAMERA CO. LTD.

Petitioners,

v.

FUJIFILM CORPORATION

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED FOR REVIEW

1. Whether this Court has ever upheld the affirmative defense of patent exhaustion when the owner of a U.S. patent (or its licensee) sold the goods in question outside the United States, in a sale that would not have infringed the U.S. patent even if conducted without the patent owner's authority, and where the U.S. patent owner receives no benefit of its U.S. patent.

The Petition presents the additional question of

2. Whether this Court's decision in *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) made new patent exhaustion law and overruled at least seven years of express Federal Circuit precedent, to hold that U.S. patent rights are automatically exhausted when a U.S. patent owner authorizes goods to be sold outside the United States (but not resold in the United States), and such foreign sales would not have infringed the patent in question without such authority, nor provided the U.S. patent owner any benefit under its U.S. patent, even though the issue of exhaustion resulting from foreign sales is not discussed anywhere in this Court's *Quanta* decision.

PARTIES TO THE PROCEEDING

Alleged Petitioner Jazz Products LLC has been ordered liquidated in bankruptcy, and therefore, no longer exists. *In re Jazz Products LLC*, Case No.: 09-33687, (Bankr. D.N.J. Dec. 23, 2009)(Order Converting Chapter 11 Case To Chapter 7). Likewise, Petitioner Jack C. Benun ("Benun") has advised (and on information and belief, Fujifilm believes) that the Chinese entities, Polytech Enterprise Ltd. and Polytech (Shenzhen) Camera Co. Ltd., ceased operations years ago. Accordingly, the only petitioner believed to exist at this time is Benun.

Respondent FUJIFILM Corporation ("Fuji"), the plaintiff below, is still in business. Fuji's predecessor, Fuji Photo Film Co., Ltd., was the successful plaintiff in *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1994 (Fed. Cir. 2001), *cert. denied*, 536 U.S. 950 (2002) ("*Jazz v. ITC*"), *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368 (Fed. Cir. 2005) ("*Fuji v. Jazz*") and *Fujifilm Corp. v. Benun*, 605 F.3d 1366 (Fed. Cir. 2010) (*per curiam*) ("*Fujifilm v. Benun*"). Either Benun, in *Fuji v. Jazz* and *Fujifilm v. Benun*, or his first company, Jazz Photo Corp., in Jazz v. ITC and Fuji v. Jazz, also was a party to each of these proceedings. Note that Jazz Photo Corp. was also liquidated in bankruptcy. Moreover, Benun has been found to have willfully and maliciously infringed Fuji's patents after the *Jazz v. ITC* and *Fuji v. Jazz* decisions. Consequently, a portion of his debt against Fuji was found to be non-dischargeable in bankruptcy (*In re Benun*, 386 B.R. 59 (Bankr. D.N.J. 2008).

In the case below, Benun was found in contempt of a preliminary injunction against infringing Fuji's patents (App. 4a) and to have willfully infringed Fuji's patents during the 2008-2010 period (App. 5a). His continuous willful infringement over more than ten years makes Benun a particularly unworthy Petitioner in this Court.

RULE 29.6 CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6 of this Court, Fujifilm Corporation is a wholly owned subsidiary of FUJIFILM Holdings Corporation, of Tokyo Japan.

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SUMMARY OF ARGUMENT

The question presented for review in this case, is essentially the same question that had been presented to this Court by essentially the same patent infringement inducer in 2002, when this Court denied a petition for a writ of certiorari from the 2001 Federal Circuit decision in *Jazz v. ITC* [1] on the very same issue of patent exhaustion resulting from foreign sales by Fuji and its licensees.

As Benun admits in his petition, patent exhaustion is an affirmative defense to patent infringement. Petition at 7, n.5. It is judge made law and finds no basis in the patent statute or any other statutes. Accordingly, until a court of controlling authority, such as this Court or the Federal Circuit, rules that foreign sales can exhaust a U.S. patent, Benun is not entitled to assert this affirmative defense. In fact, no decision by this Court or the Federal Circuit has ever based the exhaustion of a U.S. patent on a foreign sale. Rather, the most directly applicable precedent was established in *Jazz v. ITC*, which *refused* to expand patent exhaustion to extraterritorial sales. This Court denied Benun's prior company's (Jazz Photo) petition for a writ of certiorari on the very same issue in 2002. *Jazz Photo*, 536 U.S. 950. Nothing has changed in the law to expand patent exhaustion to extraterritorial sales.

There is no reason to extend exhaustion to foreign sales. A U.S. patent owner does not obtain any benefit from his U.S. patent from a foreign sale. Having a U.S.

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1. *Jazz Photo Corp. v. Int'l Trade Comm'n*, 536 U.S. 950 (2002).

patent does not permit the U.S. patent owner to increase his price or charge competitors royalties for sales that are not protected by the exclusivity in the United States accorded by a U.S patent. Rather, the U.S. patent owner competes in foreign markets with exactly the same stature whether or not it owns a U.S. patent. Accordingly, it would be unfair to exhaust the U.S. patent owner's U.S. patent rights, because it did not obtain any benefit from its U.S. patent with respect to the sale in question.

Notwithstanding Benun's arguments to the contrary, this Court's decision in *Quanta* did not address the issue of patent exhaustion resulting from sales outside the United States. That question was not before this Court. Therefore, the law of patent exhaustion resulting from foreign sales remains governed by *Boesch v. Graff*, 133 U.S. 697 (1890), *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895), *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), *Jazz v. ITC*, *Fuji v. Jazz*, *Fujifilm v. Benun*, and other cases discussed herein. None of these cases extended patent exhaustion to foreign sales. Rather, these cases confirm that when a sale takes place outside the United States and the patent owner has not authorized importation into the United States, the sale does not and should not exhaust any U.S. patents. This is true, because the seller obtained no royalty and derived no benefit from its U.S. patent when the goods in question were sold overseas.

Accordingly, certiorari should be denied.

ARGUMENT

I. NO SUPREME COURT DECISION HAS EVER ESTABLISHED FOREIGN EXHAUSTION BECAUSE U.S. PATENT LAW IS DOMESTIC IN NATURE

No decision of this Court (or the Federal Circuit) has ever held that sales of goods authorized by a U.S. patent owner, that occur outside the United States, exhaust the U.S. patent rights in the goods involved in the foreign sale. Therefore, there is no affirmative defense of patent exhaustion when the goods in question are authorized to be sold by the U.S. patent owner outside the United States.[2] This is in part, because the U.S. patent owner obtains no benefit from its U.S. patent under such sale and therefore, there is no reason to exhaust its U.S. patent rights.

Benun incorrectly frames the issue with an unsupported assumption that the *absence* of case law placing a territorial limitation on exhaustion implies that none exists. However, as discussed below, the patent laws do not provide for exhaustion — patent exhaustion is judge-made law. Accordingly, the proper way to frame the issue presented by Benun's Petition Brief at page 10 is that this Court has *not*, "in nearly 150 years of

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2. This is the patent "first sale" rule, confirmed by the Federal Circuit, that Benun would have this Court overrule. The first sale rule confirms a circumstance where exhaustion of a U.S. patent does **not** occur. There is no dispute that an authorized sale of a patented product in the United States does exhaust the patent as to that specific product.

patent exhaustion jurisprudence, ever identified or hinted at a territorial [expansion of][3] the rule of patent exhaustion" beyond the boundaries of the United States. Because this Court has not expanded patent exhaustion into foreign markets, the Federal Circuit was correct to hold that patent rights are not exhausted when the U.S. patent owner sells his goods outside the reach of his U.S. patent and does not authorize their resale in the United States.

As this Court ruled in *Microsoft*, the laws should be interpreted with a presumption that **patent laws are not extraterritorial in nature**:

> Any doubt that Microsoft's conduct falls outside § 271(f)'s compass would be resolved by the **presumption against extraterritoriality**, on which we have already touched. ... The presumption that United States law governs domestically but does not rule the world applies with **particular force in patent law**. The traditional understanding that **our patent law "operate[s] only domestically** and d[oes] not extend to foreign activities," Fisch & Allen, *supra*, at 559, is embedded in the Patent Act itself, which provides that a patent confers exclusive rights in an invention within the United States. 35 U.S.C. § 154(a)(1) (patentee's rights over invention apply to manufacture, use, or sale "throughout the United States" and to importation "into the United States"). *See*

3. Modification of meaning intentional.

> *Deepsouth*, 406 U.S., at 531, 92 S.Ct. 1700 (**"Our patent system makes no claim to extraterritorial effect**"; our legislation "d[oes] not, and [was] not intended to, operate beyond the limits of the United States, and we correspondingly reject the claims of others to such control over our markets." (quoting *Brown*, 19 How., at 195, 15 L.Ed. 595)).

550 U.S. 437, 454-55 (2009)(emphasis added).

A. Authorized Sales In Or To The United States Exhaust A U.S. Patent Because Such Authorized Sales Provide The U.S. Patent Owner With A Benefit From Its U.S. Patent

The patent laws were passed, in part, to satisfy the requirements of Article I, §8, cl. 8 of the Constitution, that Congress promote the progress of science and the useful arts by securing for inventors the exclusive right to their inventions. Thus, a patent grants its owner one right – to exclude others from invading that constitutionally based **exclusivity in the U.S. market**. 35 U.S.C. § 271. The owner of a U.S. patent can legally benefit from that U.S. market exclusivity by raising its prices in the United States or by charging licensees royalties for access to that U.S. market exclusivity. A patent owner can also sue for and collect damages as a result of any infringement on that exclusivity in the U.S. market.

This Court's cases are consistent that while a U.S. patent owner is entitled to but one benefit from its U.S. patent, it nevertheless ***is*** entitled to that one benefit. *See, e.g. Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 350 (1863) ("Patentees acquire the exclusive right to make and use, and vend to others to be used, their patented inventions ...[but] [t]hey are entitled to but one royalty...."); *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942) ("the dominant concern of the patent system.... [is] the promotion of the progress of science and the useful arts...."); *Boesch*, 133 U.S. at 702 ("The franchise which the patent grants consists altogether in the right to exclude every one from making, using or vending the thing patented without the permission of the patentee."); *Keeler*, 157 U.S. at 664-65 (patent rights were not exhausted because "neither the patentee nor any assignee had ever received any royalty or given any license to use the patented article in any part of the United States.").

> Our decisions have uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article ...

United States v. Univis Lens Co., 316 U.S. 241, 251-52 (1942).

Patent exhaustion is judge-made law, based on the premise that after a U.S. patent owner obtains a benefit from its patent, with respect to specific goods sold, the exclusivity in those goods has been exhausted. *See, e.g.*

Univis, supra. Benun's Petition confirms that the basis for patent exhaustion is that the patent owner has already enjoyed its one guaranteed benefit derived from his U.S. patent. Petition at 17. It therefore follows that exhaustion is not appropriate until after a patent owner receives its benefit under its U.S. patent rights as a result of such sales.

Benun cites *Keeler*, 157 U.S. at 666-67, for the proposition that patent exhaustion is acceptable as long as it does not deprive the U.S. patent owner the "tribute" guaranteed under that patent. Petition at 27-28. Benun also relies on *Masonite*. Petition at 28. However, these cases do not support his position. Both *Masonite* and *Keeler* confirm that patent exhaustion does not result until after the patent owner has been fairly compensated for its United States patent rights. *Masonite*, 316 U.S. at 278 ("The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article."); *Keeler*, 157 U.S. at 665-7.

Accordingly, it is clear that Fuji's U.S. patent rights in the cameras at issue were not exhausted until Fuji received a benefit from those U.S. patent rights.

B. Sales Outside the United States Do Not Exhaust A U.S. Patent Because They Do Not Provide The U.S. Patent Owner A Benefit From Its U.S. Patent

This Court has never held that a foreign sale, even if authorized in the foreign country by the U.S. patent owner, exhausts a U.S. patent.[4] The law in this country has always been that the patent laws are not extraterritorial. *E.g. Microsoft*, 550 U.S. at 454-55; *Boesch*, 133 U.S. at 703. Moreover, three times, over nine years, the Federal Circuit has confirmed that foreign sales of a product under the authority of the U.S. patent owner **do not** exhaust a U.S. patent, absent the patent owner authorizing the importation of the patented article. *Fujifilm v. Benun*, 605 F.3d at 1371; *Fuji v. Jazz*, 394 F.3d at 1376; *Jazz v. ITC*, 264 F.3d at 1105.

The above Federal Circuit rulings unequivocally state that U.S. patent rights are only exhausted after the patentee (or its authorized licensee) sells or authorizes the sale of the patented article in the United States. *Fujifilm v. Benun*, 605 F.3d at 1371; *Fuji v. Jazz*, 394 F.3d at 1376; *Jazz v. ITC*, 264 F.3d at 1105. These rulings are based on the recognition that a U.S. patent owner derives a benefit from its U.S. patent rights only by virtue of an authorized U.S. sale. This "first sale" doctrine remains the unequivocal controlling rule of law to be applied in patent cases and as discussed below, this doctrine was not affected by this Court's holding in *Quanta*.

4. This case does not involve situations where resale in the U.S. is expressly or implicitly authorized by the U.S. patent owner.

When a U.S. patent owner sells a product covered by its U.S. patent overseas, its sales are not protected by its exclusive rights in the United States. Its U.S. patent cannot be used to exclude others from making those foreign sales. Consequently, the U.S. patent owner in no way derives any benefit from those sales under its U.S. patent. The U.S. patent owner must compete head-to-head with its foreign competitors. It cannot charge higher prices in foreign markets because its U.S. patent gives it no exclusivity in those foreign markets. *See Fuji Photo Film Co. v. Jazz Photo Corp.*, 249 F. Supp. 2d 434, 450 (D.N.J. 2003), *aff'd*, 394 F.3d 1368 (Fed. Cir. 2005).

A U.S. patent owner derives no benefit from its U.S. patent when it competes in foreign markets. "United States patent laws 'do not, and were not intended to, operate beyond the limits of the United States[.]" *Fuji v. Jazz*, 394 F.3d at 1376 (quoting *Int'l Rectifier Corp. v. Samsung Elecs. Co.*, 361 F.3d 1355, 1360 (Fed. Cir. 2004) and *Brown v. Duchesne*, 60 U.S 183, 195 (1856)). "**[F]oreign sales can never occur *under* a United States patent.**" *Fuji v. Jazz*, 394 F.3d at 1376 (emphasis added).

This Court has confirmed that foreign sales do not occur "under" a U.S. patent, given that U.S. patent rights generally do not apply extraterritorially. For example, in *Microsoft*, 550 U.S. at 441 and in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972), this Court recognized that U.S. patents are not infringed when inventions covered by a U.S. patent are practiced outside U.S. borders. *See also, Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000). For this reason, foreign sales are not benefitted by U.S. patents and therefore, do not exhaust U.S. patent rights.

A foreign first sale, even if by the patent owner or its licensee, does not involve the exercise of any rights under a U.S. patent. Even if the overseas seller possessed the authority to sell the product in the United States, the foreign sale would not be an "authorized sale" within the meaning of the patent-exhaustion doctrine unless the foreign first sale was coupled with the patent owner's express or implied authorization to re-sell the patented product in the United States. *See Fuji v. Jazz*, 394 F.3d at 1376.

Interestingly, Benun's explanation of this Court's holding in *Boesch* (Petition at 13), establishes exactly why foreign sales, which are outside the reach of the U.S. patent laws, do not exhaust U.S. patent rights. Benun explains that in *Boesch*, there was no exhaustion because the U.S. patent owner had not received any benefit from the U.S. patent. *Id.*; *accord*, *Keeler*, 157 U.S. at 665. As this Court explained in *Keeler*, "neither the patentee [in *Boesch*] nor any assignee had ever received any royalty or given any license to use the patented article in any part of the United States." *Id.* For that reason, the failure of the U.S. patent owner to receive its benefit under its U.S. patents, means that the foreign sale did not exhaust the U.S. patent rights. *Id.* Thus, in *Keeler*, this Court confirmed that "no article can be unfettered from the claim of [the patentee's] monopoly without paying its tribute"[5] to the U.S. patent owner. *Id.* at 666-67. Accordingly, it is well settled that

5. In *Keeler*, the patent defendant purchased wardrobe bedsteads from the patent owner in one state and sold them in another where the rights were held by a third party. Nonetheless, the sale exhausted the patent rights in the entire United States. 157 U.S. at 666.

enjoying the benefit of a U.S. patent, whether by receiving a royalty or the ability to raise prices because there is no unlicensed competition, is what leads to patent exhaustion, not mere revenue from sales that were in no way benefitted by the U.S. patent.

Benun agrees that patent exhaustion is based on the theory that while a patent owner is entitled to a benefit from his or her patent, the owner is only entitled to one benefit per product sold under that patent. However, Benun argues that where the sale takes place is not relevant. Critical to this argument is his naked assertion that a patent owner *does* obtain a benefit under its U.S. patent when the U.S. patent owner sells a patented product overseas: "it is undisputed that Fujifilm, the patentee, authorized the first sale of every one of the cameras at bar and reaped compensation for its patent rights in such sales." Petition at 17. Nevertheless, Benun did not explain *how* Fuji "reaped compensation" from those foreign sales any more than if it had no U.S. patents at all.

When a patent owner with only U.S. and European patents makes a product in China and sells it in Japan, the owner competes with every other manufacturer for that Japanese sale. Having the U.S. patent does nothing to restrict the patent owner's competition in Japan or anywhere outside the United States, for that matter. The U.S. patent owner cannot use its U.S. patent to charge increased prices in Japan, nor can it use that U.S. patent to demand royalties from its competitors (unless the transaction also involves authorization to resell in the United States). To the extent an owner of U.S. and European patents can charge patent enhanced

prices or demand royalties from competitors in Europe, that is a result of the European patent laws, not the U.S. patent laws. The U.S. patent owner obtains no benefit under its U.S. patent for its foreign sales unless those foreign sales include authority to resell in the United States.

Accordingly, it is manifestly unfair to permit a foreign purchaser, who bought products at a low price in a foreign market, because the U.S. patent owner had no protection from its U.S. patent, to resell those very products in the United States with no concern for the U.S. patent.

C. This Court's Decision in *Boesch* Did Not Establish Foreign Exhaustion

Benun would have this Court draw a conclusion that is not found anywhere in this Court's decision in *Boesch*. First, Benun correctly states the issue in *Boesch*:

> whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent.

Petition at 18 (*quoting Boesch*, 133 U.S. at 702). In *Boesch*, this Court held that because the importer did not have a license or consent from the U.S. patent owners, the importation was an infringement of the U.S. Patent. However, Benun then draws the unsupported conclusion that *Boesch* supports exhausting U.S. patents as a result of foreign sales.

A basis for the *Boesch* holding was that the U.S. patentee never received any royalty or other reward under its U.S. patent. Benun makes the unsupported leap that if the foreign seller also had been the U.S. patent owner, then, this Court would have ruled that there *was* patent exhaustion. Petition at 17-18. Benun ignores the reality that the U.S. patent owner would still remain without any royalty or reward from his U.S. patent. Benun's surmise, which is critical to his argument, finds no support in the *Boesch* decision.

D. There Is Symmetry Between Exhaustion And Infringement

The symmetry between exhaustion and infringement is one of several necessary symmetries to many aspects of the patent law. For example, that which infringes if later, anticipates if before.[6] Insignificant differences between an accused product and the literal words of a patent claim do not prevent the product from infringing under the doctrine of equivalents[7] and insignificant differences between a prior art reference and a patent claim do not prevent the prior art from invalidating the claim under the doctrine of obviousness.[8] A sale that infringes a patent, if sold by one not authorized by the patent owner, exhausts the patent if sold by one that is authorized by the patent owner.[9]

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6. *Peters v. Active Mfg. Co.*, 129 U.S. 530, 537 (1889).

7. *Voda v. Cordis Corp.*, 536 F.3d 1311, 1326 (Fed. Cir. 2008).

8. *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398,401-02 (2007)

9. *Jazz v. ITC*, 264 F.3d at 1105.

This symmetry is implicit in this Court's holding in *Quanta*. This Court held that sales that would cause contributory infringement if unauthorized, exhaust patent rights if authorized. *Quanta*, 553 U.S. at 626, 631. Section 271(c) of the U.S. Patent Law establishes that for a sale to be a contributory infringement, that sale must occur in the United States:

> Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine ... knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

35 U.S.C. § 271(c). Therefore, because unauthorized sales (in the United States) of a non-staple component of a patented product can cause contributory infringement, those same sales will lead to patent exhaustion if they are authorized.

In accordance with the foregoing, it clearly follows: sale of a product that does not infringe a U.S. patent because the sale occurred outside of the United States, does not exhaust the U.S. patent even if sold by the U.S. patent owner, unless the patent owner also authorized resale of that product in the United States. A foreign sale does not confer the U.S. patent owner with any benefit, such as a royalty, increased profit or otherwise **under his U.S. patent**. A U.S. patent owner cannot use its U.S. patent to enjoy the exclusive right

to its invention in foreign markets. The owner cannot demand royalties from its competitors on foreign sales that would have infringed the U.S. patent if sold in the United States unless it authorized resale in the U.S. Accordingly, there is no basis for holding that a foreign sale by the U.S. patent owner exhausted its U.S. patent rights.

II. *QUANTA* DID NOT EXPAND PATENT EXHAUSTION TO INCLUDE FOREIGN SALES

This Court's ruling in *Quanta*, may have addressed many issues, but exhausting U.S. patents as a result of extraterritorial sales was not one of them. Rather, *Quanta*, not surprisingly, confirmed earlier Supreme Court precedent (*Univis*) that the sale of less than all of the components of a patented combination, that have no substantial noninfringing use, can exhaust a patent. 553 U.S. at 633. *Quanta* held that patent exhaustion can apply to method patents. *Id.* at 628-29.[10] *Quanta* also held that the type of restrictions in LG Electronics Inc.'s ("LG") license to Intel Corporation ("Intel") was ineffective to preclude exhaustion when products were sold under that license. *Id.* at 635-36. However, *Quanta* did not hold that foreign sales exhaust U.S. patent rights. In fact, that issue was not even under consideration.

10. The Federal Circuit in *Jazz v. ITC* in fact reached the same conclusion, although stating a method version of the patent first sale rule. *Jazz v. ITC*, 264 F.3d at 1108-09.

A. Background: The Patents And Licenses At Issue In *Quanta*

LG is the owner of the three patents at issue in *Quanta* (collectively, the "LG Patents"). *Quanta*, 553 U.S. at 621; *see LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1377-78 (Fed. Cir. 2006). The LG Patents relate to systems whereby a microprocessor writes or reads data to or from memory units. *Id.* LG licensed Intel (the "License Agreement") to make, use, or sell combination products practicing the LG Patents. *Quanta*, 553 U.S. at 623. The License Agreement restricted Intel from passing, to any of its customers, a license under the LG Patents to make the patented combination by combining Intel's unpatented chips with components acquired from a source other than Intel. *Id.* On the other hand, the License Agreement clearly stated that it did not "limit or alter the effect of patent exhaustion that would otherwise apply when [Intel] sold any of its Licensed Products." *Id.* This Court found this express agreement to not alter the effects of patent exhaustion, to be important in its holding. *Id.*

Intel and LG also entered into a second "Master" agreement in which Intel agreed to provide written notice to its customers that its license from LG "does not extend, expressly or by implication, to any product that [a subsequent purchaser] make[s] by combining an Intel product with any non-Intel product." *Id.* However, while the Master Agreement included this notice provision, this Court held that it did not impose an affirmative restriction on Intel's sales that would alter the effects of patent exhaustion. *Id.* at 635-36.

Intel sold chips and microprocessors (the "Intel Chips") to Quanta, but not the standard hardware (*e.g.*, wires, buses and memory units) used to connect the Intel Chips in a working computer. Intel provided Quanta with the notice required by the Master agreement. *Id.* at 623. None of the Intel Chips infringed the LG Patents until assembled with that standard hardware into a computer. However, the Intel Chips were "specifically designed to function only when memory or buses are attached." *Id.* at 633. Therefore, the "only reasonable and intended use [for the Intel Chips] was to practice the [LG Patents]." *Id.* at 631. In fact, "Intel all but practiced the patent itself by designing its products to practice the patents, lacking only the addition of standard parts." *Id.* at 633.

B. *Quanta* Confirmed That Sales That Would Cause Contributory Infringement If Unauthorized, Would Cause Patent Exhaustion If Authorized, But The Decision Did Not Create Foreign Exhaustion

The dispute arose after Quanta manufactured computers by combining the Intel Chips with non-Intel standard hardware, in a way that the assembled computer practiced the LG Patents. The issue this Court resolved was whether those computers infringed the LG Patents or whether Intel's authorized sale of the Intel Chips exhausted LG's rights to patents covering a system containing those chips. Whether the LG Patents would be exhausted if Intel sold its chips outside the United States was **not** at issue and was not ruled on by this Court.

The district court granted Quanta's motion for partial summary judgment. It held that patent exhaustion applied to the sale of unpatented Intel Chips because they were not staple articles of commerce, i.e., they had no meaningful function except as components in the patented systems. *LG Elecs. Inc. v. Asustek Computer Inc.*, 65 U.S.P.Q. 2d 1589, 1598-1600 (N.D. Cal. 2002). The Federal Circuit disagreed. *See Bizcom*, 453 F.3d at 1370. It held that the sale of the Intel Chips was not an authorized sale, because their sale was conditioned on an agreement not to combine those chips with non-Intel products. It concluded that the exhaustion doctrine does not apply to an expressly conditioned sale or license, nor to method patents. Exhaustion based on foreign sales was not addressed in the Federal Circuit's decision.

This Court held that the License Agreement was not effective to turn the sale into an unauthorized sale and that *Univis* governed the case. In *Univis*, this Court found that exhaustion occurs when the only reasonable and intended use of the product sold is to complete the patented combination. *Quanta*, 553 U.S. at 631. This Court found that as with the product at issue in *Univis*, the Intel Chips substantially embodied the patented invention and all but completely practiced the LG Patents because the "only step necessary to practice the patent is the application of common processes or the addition of standard parts." *Id.* at 633.

This Court ruled that patent exhaustion applied to method patents (*id.* at 628),[11] and because Intel was authorized to sell components sufficient to contribute to the infringement of the LG Patents, the doctrine of patent exhaustion prevented LG from asserting its patent rights against Quanta's computers. Importantly, nothing in *Quanta* in any way addresses the issue of foreign exhaustion.

A careful review of the *Quanta* decision confirms that nowhere does it discuss whether any of Intel's allegedly patent exhausting sales were made outside the United States. The reason for this is clear. The issue of foreign sales was not before this Court. The issue of foreign sales was absent from Petitioner Quanta's opening brief to this Court. It is not until the last page of Respondent LG's 53 page brief, at footnote 19, that a mention of possible foreign sales even appears. In that footnote, LG merely suggested that "whether the sales of the components took place exclusively outside the United States" was an "open" issue. Clearly, LG understood the law to be that foreign sales would not have exhausted its patents.

Quanta also understood that foreign sales would not exhaust LG's U.S. patent rights. Instead of arguing (without basis) that those foreign sales would in any event, exhaust LG's patents, Quanta argued that **the issue of foreign sales was not before this Court**:

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11. Unlike its earlier decisions, in *Jazz v. ITC*, the Federal Circuit correctly ruled that patent exhaustion applies to method patents, albeit subject to a method patent version of the first sale doctrine. 264 F.3d at 1108-09.

> [LG] also suggests (RespBr-53 n.19) that it might still argue that exhaustion should not apply because these sales may have occurred outside the United States. **[LGE] has never made this argument before, never even requested discovery on the locus of Intel's sales to Quanta, and has clearly waived this issue.**

Quanta Reply Br. at 3-4, n.2 (emphasis added). Nothing in this Court's *Quanta* decision addresses the locus of Intel's sales. Accordingly, *Quanta* did not involve the issue of foreign sales.

Nevertheless, in *Quanta*, this Court had an opportunity to address this precise issue and **did not hold that foreign sales exhaust U.S. patent rights**. Section "B" of the *Quanta* decision involved "the extent to which a [noninfringing] product must embody a patent in order to trigger exhaustion." *Quanta*, 553 U.S. at 629. In *Univis*, this Court held that a sale of less than an entire patented combination will trigger exhaustion when a product's "only reasonable and intended use [is] to practice the patent." *Id.* at 631. LG argued that the Intel Chips did have a reasonable noninfringing use — use overseas — that would not infringe LG's patents (LG's "overseas" argument). *Id.* at 631, n.6. Therefore, this Court had the opportunity, but did not indicate that such hypothetical foreign sales would have, in any event, exhausted LG's patents.

This Court held that, for purposes of determining whether the sale of less than the patented combination triggers exhaustion, the analysis considers whether the only reasonable use is one that practices the patent, even if not technically infringing the patent. Therefore, the Intel Chips were held to be the type of products that **can** exhaust a patent, even if they do not infringe the patent when sold overseas. *Id.* In other words, this Court ruled that theoretical foreign use was not an example of the type of potential noninfringing use that could avoid a finding of contributory infringement, and therefore avoid a finding of patent exhaustion. *Id.* Accordingly, this Court had the opportunity to state that the foreign sales could nevertheless exhaust LG's patent rights, but did not.

The former Deputy Solicitor General who argued *Quanta* for the U.S. agrees that whether the LG Patents would be exhausted if Intel sold its chips outside the U.S. was not at issue and was not ruled on by this Court. Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, 49 IDEA 517, 543, n.128 (2009) (concluding that even after Quanta "the overseas sale of an article or component that is the subject of a U.S. patent cannot exhaust the patent holder's rights, because no authorization under the U.S. patent would have been required or exercised in that overseas sale, given that U.S. patent rights generally do not apply extraterritorially.") Accordingly, based on the foregoing, it is clear that Petitioner's arguments that *Quanta* made new law with respect to foreign sales exhausting U.S. patents has no basis.

C. The *LG v. Hitachi* Case is not the Remand of *Quanta*

In an effort to support his argument that *Quanta* actually did involve the issue of foreign sales, Benun asserts, with no support or citation, that the *LG Elecs., Inc. v. Hitachi, Ltd.* 655 Supp.2d 1036, (N.D. Cal. 2009) case was the remand of this Court's *Quanta* decision. Petition at 18-19 and *passim*. However, Benun's assertion is without basis. The district court case underlying *Quanta* was *LG Elecs. v. Asustek*, 248 F. Supp. 2d 912 (N.D. Cal. 2003). *Asustek* was decided in 2003 and does not identify Hitachi as a defendant. This court's decision in *Quanta* was decided in 2008. *LG v. Hitachi* was filed on December 31, 2007 as civil action no. 4:07 cv 06511 and does not name Quanta as a party.

LG v. Hitachi confirms that it involves a separate lawsuit: "LGE now charges Hitachi with infringing the patents-in-suit in the same way that it alleged the defendants in *Quanta* infringed those patents ...." 655 F. Supp. 2d at 1040. Accordingly, it is clear that the *LG v. Hitachi* case involved a different defendant, different underlying facts and in no way establishes that this Court decided *Quanta* under an understanding that foreign sales were at issue.

Moreover, the district court's supposedly persuasive reasoning in *LG v. Hitachi* includes an important flaw. That court incorrectly reasoned that limiting exhaustion to domestic sales would permit the patent owner to do an "'end run' around the exhaustion doctrine by authorizing a [foreign] sale, **thereby reaping the benefit of its [U.S.] patent**, then suing a downstream purchaser

[in the U.S.] for patent infringement." 655 F. Supp. 2d at 1046. (emphasis added). The court acknowledged that U.S. patent laws do not give U.S. patents any extraterritorial effect. It understood that there is no liability under a U.S. patent for sales occurring outside the U.S. However, it then erroneously reasoned that such extraterritorial effect and triggering exhaustion are unrelated. *Id.* at 1047.

The critical flaw in this argument is that **the U.S. patent owner derives no benefit from its U.S. patent when it sells the patented product overseas unless it authorizes resale in the U.S.** This lack of extraterritoriality is precisely what precludes the owner of a U.S. patent from "reaping the benefit of its [U.S.] patent" when a sale occurs outside the United States. *Id.* at 1046. The patent owner cannot restrict competition or exact royalties based on its U.S. patent from foreign sales. Therefore, the U.S. patent owner derives no benefit from its U.S. patent for the foreign sales. Accordingly, limiting exhaustion to domestic sales does not permit an end run around the exhaustion doctrine.

III. BENUN'S DOOMSDAY PREDICTIONS DO NOT SURVIVE ANALYSIS

A. Manufacturers Have Not Been Repeatedly Suing Their Customers

Benun's predictions of patent owners mercilessly and repeatedly suing their retailer customers or moving manufacturing overseas to avoid patent exhaustion is premised on a recent change in the law, whose dire effects have not yet begun to be realized. In fact, no

recent change in the law exists. This Court has never expanded exhaustion to foreign sales and it has been almost ten years since the Federal Circuit in *Jazz v. ITC* confirmed that foreign sales do not exhaust U.S. patents. Moreover, Benun has not identified a single lawsuit against a retailer over whether the retailer purchased its patented goods in the United States. There is no evidence in the record of a single company moving manufacturing overseas to avoid the consequences of patent exhaustion.

There is, however, evidence of the opposite occurring. The distinctions between the goods from the U.S. manufacturing facility and foreign factories were helpful to Fujifilm in proving that certain products were not first sold in the United States. *Fuji Photo Film Co. v. Int'l Trade Comm'n*, 474 F.3d 1281, 1293-94 (Fed. Cir. 2007); *Fuji Photo Film*, 249 F. Supp. 2d at 451, n.22. Worldwide production of the single use cameras that were the subject of the Fujifilm cases has been consolidated in the United States, not moved overseas. Clearly, it is much easier for a company to address the foreign exhaustion issues by contract than by moving centers of manufacturing. Accordingly, Benun's wild speculations regarding supposed uncertainty simply do not hold true.

B. Justice Breyer's Bicycle Hypothetical from *Quanta* Is Not Relevant Here

Justice Breyer's Bicycle Hypothetical (Petition at 26) is not relevant to this case. If the pedals were first sold in the United States by the patent owner, the patent rights in those pedals have been exhausted. However,

the purchaser of the pedals in the bicycle shop, like any consumer at any retailer, has no real way of telling whether the shop obtained the pedals in an authorized manner, whether they are counterfeits, whether they were stolen or whether they infringe some third party patent. The fact of the matter is that consumers can rarely tell whether the goods they are buying infringe someone's patent, nor do they care, since infringement suits against individuals are quite the exception and none have been identified in Benun's Petition. More importantly, JusticeBreyer's hypothetical in *Quanta* was most likely related to the issue of a component as part of a patented whole.

C. Fuji Did Not Perform An "End-run" Around the Exhaustion Rule

Benun contends that precluding patent exhaustion from resulting from a foreign sale by the U.S. patent owner permitted Fuji to accomplish an "end-run" around the exhaustion rule. By this, Benun means that Fuji reaped the benefit of its U.S. patent, then sued a downstream indirect customer of the very product at issue for patent infringement. Of course, this is completely untrue and unsupported.

First, as discussed above and as is ignored by Benun's Petition, when Fuji or one of its licensees sells a camera outside of the United States, Fuji obtains absolutely no benefit under its U.S. patent. Even if Fuji did have a foreign patent in a foreign country, whatever benefit Fuji obtained under that foreign patent is determined under the foreign laws of that foreign country. Different foreign countries may or may not

provide the same type of benefits under their patent laws that the United States provides under its patent laws. Nevertheless, as the Supreme Court explained in *Boesch*, "the sale of articles in the United States under a United States patent cannot be controlled by foreign laws." Boesch, 133 U.S. at 703.

Moreover, the record is clear that when Fuji sells one of the single use cameras at issue, it intends for the customer to use the camera once and then turn it in to a film processor. Benun admits that after the film processor "crack[s]" open the camera to access the film, all that is left is a "spent" empty shell. Petition at 4. New film is installed and the shell is taped together and repackaged in his factories in China. Fuji has no intention that anyone turn the spent shell into a new camera that will be sold in the United States. Thus, when Fuji sells a camera in a foreign country, it has no scheme to sue downstream secondary customers in the United States. There is a complete lack of privity between the factories that collect the spent shells and Fuji. Accordingly, there is no evidence in the record of Fuji trying to perform any "end-run" around any laws or contracts.

CONCLUSION

For all the above reasons, the petition for certiorari should be denied.

Respectfully submitted,

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